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GAO

Testimony

AD-A268 050



For Release
on Delivery
Expected at
9:30 a.m., EDT
Tuesday,
April 16, 1991

Significance of DOD's Foreign Dependence

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AUG 17 1993
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Before the
Subcommittee on Defense Industry and
Technology
Committee on Armed Services
United States Senate



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DTIC QUALITY EVALUATION

93-18580



Mr. Chairman and Members of the Subcommittee:

We appreciate this opportunity to appear before the Subcommittee today to discuss the Department of Defense's (DOD) dependence on foreign sources for critical components of its weapon systems. As you know, the term foreign source refers to sources of supply, manufacturer, or technology located outside the United States or Canada. A foreign dependency exists if there is no immediately available alternative domestic source.

In a global economy, foreign sources of supply, manufacturing, and technology are an economic reality and abound in both the commercial and defense sectors. Use of foreign sources generates some benefits as well as some concerns. Many experts agree that trends regarding increased use of foreign sources should be closely monitored. The principal national security concern regarding foreign sourcing for critical components of weapon systems relates to whether a dependency exists and constitutes a risk, or vulnerability, to the United States. Not all dependencies pose such a threat to national security. However, such a risk or threat would exist if the United States were to become so dependent on a foreign source that its ability to produce critical weapon systems and/or secure the most advanced technology for the development of a future weapon system were to be compromised.

My testimony is based on our recent report, Industrial Base: Significance of DOD's Foreign Dependence, issued on January 10, 1991, (GAO/NSIAD-91-93). Briefly stated, we reported that DOD does not know the impact or significance of its foreign dependency problems; DOD's awareness of dependencies is limited; previously identified dependencies still exist; and DOD's efforts to develop adequate information on dependencies have been slow in coming and inadequate.

THE SIGNIFICANCE OF
DOD'S FOREIGN DEPENDENCE

Because DOD has only limited information and does not have a reliable information system on foreign sources and dependencies at the lower tiers of the supplier base, the overall extent of foreign sourcing and foreign dependency is unknown. Moreover, no criteria have been established for determining what the levels of foreign dependency tolerance should be for various items and what actions DOD could or should take to reduce the associated risks. As a result, DOD has not put itself in a position to know the seriousness or significance of its overall foreign dependency problem.

Overseas sources of supply may provide economic and political advantages that include lower costs, better technology, better integration with our allies, and access to an industrial base much larger than our domestic base. However, there are potential disadvantages associated with foreign source procurement. These include dependencies on foreign sources that may be less reliable suppliers than domestic ones, particularly in times of crises. Another potential disadvantage is a lack of DOD access to advanced technology, developed in other countries, that may be important to the qualitative superiority of our weapons, a key element of our military strategy. Even if DOD does subsequently obtain such access, reduced capability to domestically produce technologically advanced products could result. A third potential disadvantage is reduced domestic production capabilities, when domestic manufacturers do not have sufficient demand to keep production lines open; in other words, U.S. businesses or industries shrink or fail.

Demonstrating that a dependency exists and that it results in a risk to national security requires the systematic collection of data as well as an analysis of various factors, such as (1) the

reliability of the foreign supply source, (2) substitutability between unreliably supplied foreign goods and alternative goods, including the length of time needed before alternatives become available, (3) the importance to the defense mission of the final products affected, and (4) the likelihood of a national security contingency in which the availability of the item might be critical.

Several studies that we reviewed presented options to reduce the risks arising from DOD's dependence on foreign sources for materials and components of major weapon systems. Some of these options involve broad policy decisions relating to such things as tax incentives and anti-trust law revisions. Other options are more program-specific and include advance procurement and subsidization for the stockpiling of critical, foreign-sourced components and materials; creation and funding for domestic research and development and/or production capacity; funding government-owned facilities; substitution with domestically sourced items; component redesign to use domestically available items; domestic licensing of foreign design; and import restrictions. A final option is for DOD to establish its weapons requirements, to the extent possible, based on what is available in the U.S. commercial industrial and technological base.

DOD'S AWARENESS OF DEPENDENCIES
IS LIMITED AND PREVIOUSLY
IDENTIFIED DEPENDENCIES STILL EXIST

In recent years, a number of studies have surfaced increasing concerns about dependencies on foreign sources for critical components for our weapon systems. For example, a study by the Joint Logistics Commanders¹ reviewed 13 DOD weapon systems and found dependencies on foreign sources in 8 of them with severe

¹A Study of the Effect of Foreign Dependency, (Feb. 15, 1986).

problems in 6. According to the study, the dependencies identified could result in a total cut-off of the production of these items as early as 2 months into a war mobilization effort for a period lasting from 6 to 14 months.

Recently, we examined whether foreign dependencies for selected items, previously identified in the Joint Logistics Commanders' study, still existed for the M1 Abrams tank and the F/A-18 Hornet aircraft, two weapons used in the Persian Gulf war. We determined that these items continue to be foreign dependent. Examples include the F/A-18 ejection seat and, for the M1 tank, optics in the gunner's primary sight, and microcircuits in the computer that aims and fires the tank's main gun.

However, the problems go well beyond these two specific weapon systems. We found that, overall, DOD officials have little awareness of the extent of foreign sourcing or dependency in their weapon systems, particularly beyond the prime contractors and their immediate subcontractors. DOD program officials are not required, and take no special action, to maintain visibility into foreign sourcing/dependency.

In the cases where foreign sources were awarded the work under DOD contract or subcontracts for the Abrams tank and the F/A-18, it was usually because of availability, quality, and cost considerations. For those items in which cost was the primary consideration, contractors stated that even if DOD were willing to pay the higher prices of domestic suppliers, they would be unable to satisfy DOD's total requirements because of production capacity constraints.

DOD acquisition and industrial preparedness personnel associated with the Abrams tank and F/A-18 aircraft programs have no systematic method for identifying or collecting data on foreign sources or foreign items used in their respective weapon systems.

Production contractor officials for both of these systems were able to supply us with some information about foreign sourcing below their immediate subcontractors, but said this information is not kept systematically. One official said such lower tier information is largely dependent on the expertise and experience of the particular buyer.

Abrams tank and F/A-18 aircraft officials were not aware of any actions taken on any item for their respective weapon systems to specifically reduce production risk from exposure to foreign sourcing or dependency. In some instances, program officials and contracting officials took action on production problems associated with foreign-sourced items, but often they discovered that the item was foreign sourced only after its loss had threatened production schedules.

The two production contractors did not mitigate foreign dependency or vulnerability by maintaining "buffer stocks" or "rolling inventories." Personnel of one contractor told us that (1) independently maintaining such extra stocks makes little economic sense for their company and (2) if the government considered maintenance of such stocks important, the government would have to require and pay for them.

DOD'S EFFORTS TO ASSESS FOREIGN DEPENDENCIES

DOD has ongoing efforts to (1) improve its information on the U.S. defense industrial base and (2) revise the DOD acquisition directive and procedures to include early consideration of foreign sourcing and dependency issues.² However, both these efforts have been slow in coming and have significant

²DOD Directive 5000.1, Major and Non-Major Defense Acquisition Programs, and DOD Instruction 5000.2, Defense Acquisition Program Procedures.

limitations. The latter effort will have difficulty in succeeding because it relies on program managers who have higher priority concerns.

Information Collection and Analysis

DOD efforts to systematically collect and analyze information on foreign sourcing do not address the issue of foreign sources used at the subcontractor level. DOD has acknowledged that its Defense Industrial Network (DINET), a "prototype" defense industrial data base, has many limitations. DOD has a proposal to develop a "full-scale system" to address industrial base issues, but there are no DOD-approved plans for its implementation.

DOD's efforts to systematically collect and analyze data on foreign sourcing and foreign dependency have been slow in developing and have not been adequately justified to receive the necessary support. DOD started the DINET project in 1985. At the beginning of fiscal year 1990, DOD expected the project to be completed in 1993. However, the project has never really left the prototype stage.

Revised Procedures

According to DOD officials, revisions to DOD's acquisition and industrial preparedness guidance and procedures are intended to require program managers to analyze, from the early stages of the acquisition process, the capability of the U.S. industrial base to meet production requirements for weapon systems. The revisions explicitly include consideration of foreign sourcing and foreign dependency. However, defense industrial base experts we spoke with expressed concerns about whether program managers, without assistance from the officials responsible for industrial preparedness planning, would effectively assess the capabilities

of the U.S. defense industrial base, including the risks inherent in foreign sourcing, to produce their weapon systems. In this regard, program officials of the two systems we reviewed commented on the limited contact between industrial preparedness planners and procurement officials and the separation of the industrial preparedness planning and acquisition processes within DOD.

DOD ACTION IS NEEDED

As we have previously reported,³ we believe that an improved approach to defense industrial base data collection and coordination, especially at the subcontractor levels of production, is necessary for DOD to properly plan and be in a position to take appropriate action regarding the industrial base. Such planning needs to take into account such factors as the economic, trade, and technology security implications of procuring items and components of major weapon systems from foreign sources.

The 1986 JLC study recommended, among other things, that DOD develop a management information system to obtain visibility on foreign dependencies for weapon system components throughout the lower production tiers. Participants in the JLC report and DOD officials told us that this report received limited attention, except from defense groups specifically concerned with

³Comments Relating to Reauthorization of the Defense Production Act, (GAO/T-NSIAD-90-10, Mar. 1, 1990) and Industrial Base: Adequacy of Information on the U.S. Defense Industrial Base, (GAO/NSIAD-90-48, Nov. 15, 1989), discusses our evaluation of certain aspects of the federal government's data collection and coordination efforts among agencies that play an important role including the Department of Commerce and the Federal Emergency Management Agency.

mobilization or industrial preparedness, and its contents and recommendations, therefore, were not fully considered or addressed.

In the context of DOD's handling of the JLC study recommendations, it is noteworthy that in April 1990 the Logistics Management Institute (LMI) issued a report, Implementing Industrial Base Study Recommendation, stating that the majority of the recent studies and reports on the defense industrial base have not been comprehensively evaluated, nor have their recommendations been prioritized. The report also states that sound recommendations have received only passing attention or have been ignored completely by DOD. The Institute recommended that the Secretary of Defense make a senior-level group responsible for evaluating and prioritizing such recommendations, establishing schedules for review and implementation of selected initiatives, and holding specific individuals or organizations accountable for meeting the schedules. DOD officials told us that the Institute's report has not yet been seriously considered; therefore, DOD has not assigned responsibilities to any individual or group.

We support these LMI recommendations. In our report, we recommended that the Secretary of Defense assign responsibility to an individual or group within the Office of the Secretary of Defense for identifying, reviewing, evaluating, prioritizing, and, when decisions have been made to take action, following up on timely implementation of the recommendations of major reports and studies on the defense industrial base to better enable DOD to take advantage of potentially valuable ideas.

We also recommended that after consulting with other agencies and private sector experts and considering existing studies regarding critical technologies, critical and strategic industries, and foreign dependencies, the Secretary of Defense should

(1) determine the key issues and policy questions for which information is needed, (2) develop a plan for a viable management information system to provide visibility on foreign dependencies for weapon systems components throughout the lower production tiers, and (3) submit, within a reasonable time, a program proposal to Congress for effectively addressing the key issues and policy questions.

Mr. Chairman, this concludes my statement. I will be happy to respond to any additional questions you or the other members of the Committee may have.

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